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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director IC J.

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RE: Economic Stimulus Plan **(Preliminary Report)**

Mayor Kwame Kilpatrick proposes to sell $360 million in bonds to fund an economic stimulus package. Components of the bond sale include:

Capitalization of interest	$ 65 million
Debt Service Reserve Fund	$ 15 million
Fiscal Stabilization Fund	$ 75 million
Capital Project Fund	$205 million
Total Bond Sale	$360 million

The Mayor's economic stimulus plan resembles a capital improvement plan rather than economic stimulus plan. The creation of temporary construction jobs is the only economic stimulus feature of the plan. A $15 million Entrepreneurship Loan Fund to create Detroit jobs could be a great program, but could take years to launch. However, this fund could be considered a stimulus feature. But in general, it is inconceivable how a large capital improvement program generates more revenue for the City of Detroit in the long run. Instead, the plan creates more debt to cover capital improvements that should have been covered under the Capital Agenda and capital budget.

Given the plan is largely a capital improvement plan, how does the plan fit with the City's five-year Capital Agenda, which establishes capital project priorities? Where in the economic stimulus package does it show the operational savings or the additional costs tied to the implementation of these projects?

Instead of using casino tax revenue over 30 years to support a large bond sale for capital improvements, why not use the current capital budget process to achieve many of these projects (new police district, police, fire, public works, public lighting, recreation renovations, etc) over a period of time? In addition, why not use the Downtown Development Authority funding sources to pay for much of the downtown capital projects (i.e., Paradise Valley, Hart Plaza, Eastern Market and streetscape improvements)?

How does the capital projects in the Mayor's economic stimulus relate to the City's Master Plan? Not only the Master Plan lays out short and long term development in the City, it encourages public input. Would the public have input in the Mayor's economic stimulus plan?

In this proposal, what planning was done to ensure that projects would not be built today in areas of the City that are losing population density? Of the 140 square miles of City land, 30% is vacant, but not contiguously, therefore forcing City operations to be provided amongst many vacant miles to ensure that the last occupied house standing is provided with service. With the City's taxable property valuation having shown no real growth since 1958, the City has insufficient General Fund or operational dollars to provide City services to the same land mass.

The City would use 15% of its casino tax revenue, about $30 million, to pay back the $360 million bond sale supporting the Mayor's economic stimulus plan over 30 years. Simultaneously, the City would pledge 50% of its casino tax revenue annually to give sufficient coverage for the debt service obligation on the bonds in a shaky credit market with nervous investors. $75 million of the bond proceeds would be deposited into a Fiscal Stabilization Fund. And, $65 million, representing three years worth of interest payments, would be set aside up front in a Capitalization Interest Fund.

Why should the City of Detroit annually pledge up to 50% of its casino tax revenue, arguably its most stable revenue source, to fund an economic stimulus package that is largely capital in nature at a time when the City is facing a $112 million operating deficit by June 30, 2008, or the end of this fiscal year? Please keep in mind that the deficit was $173 million as of June 30, 2006, according to the latest Comprehensive Annual Financial Report (CAFR).

Why should the City use casino tax revenue to support bonds when its other major revenue sources are not growing or declining, such as state revenue sharing, property taxes and income taxes given the State's dismal economy, and the poor local economy resulting from downsizing of the automotive industry and reduced housing prices from slow sales and foreclosures?

Although it is likely the City would receive modest growth in its casino tax revenue as a result of the operation of the 3 permanent casinos to help support a Wagering Tax Revenue bond sale, it also highly likely any increase in casino tax revenue would be needed to cover increases in operational cost, such as salary, health care and pension cost.

Why should the City borrow money to place $75 million in a Fiscal Stabilization Fund and the City has a deficit larger than this fund? It is conceivable the City could turn around right away to exhaust this fund to help address the deficit. Why not instead issue fiscal stabilization bonds under current state law to help address the City's deficit, something the City has done in the past, and create a long-term plan to reach structural balance and build up the City's reserves by spending within its means?

And by putting away up front $65 million for interest payments in a Capitalized Interest Fund, the City would end up paying more interest because it would in fact be borrowing to pay interest.

The $205 million Capital Project Fund created by the economic stimulus package includes a $10 million Neighborhood Preservation Fund to address foreclosures, weatherization issues and other structural problems. It seems federal dollars could sought to help address these issues. It also seems the City could go after federal dollars to help fund an Entrepreneurship Loan Fund. Or, the City could on a piecemeal basis siphon away some of the growth in casino tax revenue over a period of years for any entrepreneurship efforts, if the City's budget is in balance, or a plan is in place to bring it in balance.

In addition, the Mayor under his economic stimulus plan proposes to sell Economic Development Corporation bonds to fund the plan, which would be backed by the casino tax revenue. The Economic Development Corporation would also administer the Fiscal Stabilization Fund, the repayment of the bonds and the disbursement of funds for capital projects. This mechanism circumvents City Council's oversight over the spending of these dollars, while placing more control of these dollars under the purview of the Administration.

For the reasons outlined above, the City Council should take the time to thoroughly review the Mayor's proposed Economic Stimulus Package. By no means should your Honorable Body feel rushed to review and consider approving this plan before and during the upcoming budget process.

The Fiscal Analysis Division will have a host of other questions in subsequent reports on this proposal.